



**Summary Analysis of Estimated Impacts of the  
Petition and Alternative Proposals on California Class and Pool Prices**

For May 18, 2006 Workshop

In Preparation for the June 1, 2006 Hearing

**REVISED Executive Summary**  
**All Revised Data in "Blue"**

*Table 1 - Estimates of Impact of Proposals (Proposed less Current Class and Pool Prices)*  
Using historic commodity prices, estimates assume that the current and alternative formulas  
had been in effect from January 2001 through December 2005  
Five-Year Averages: 2001-2005  
(Dollars per Hundredweight)

	<b>Class 4b</b>	<b>Class 4a</b>	<b>Classes 2 &amp; 3</b>	<b>Quota &amp; Overbase</b>
<b>Institute 1/</b> <b>with whey</b>	-\$0.63	-\$0.01	-\$0.01	-\$0.29
<b>without whey</b>	-\$0.36	-\$0.01	-\$0.01	-\$0.17
<b>WUD</b>	\$0.10	\$0.06	\$0.06	\$0.07
<b>CDC 2/</b>	<b>\$0.27</b>	<b>\$0.08</b>	<b>\$0.08</b>	<b>\$0.17</b>
<b>CDI 3/</b>		-\$0.13	-\$0.13	-\$0.05
<b>Alliance 4/</b>	\$0.06	-\$0.13	-\$0.13	-\$0.02
<b>MPC 5/</b>	\$0.52			\$0.24
<b>LOL</b>	-\$0.29			-\$0.13

1/ It is not possible to predict when the whey factor would be eliminated. Therefore two estimates are given:

(1) with the whey factor and the higher manufacturing cost allowance in place for the entire 5-year period;  
and (2) with the whey factor removed for the entire 5-year period

2/ Quarterly Production Cost Comparison (PCC) estimated.

3/ Changing the Class 4a fat price will have some effect on Class 4b prices.

4/ Does not include natural gas factor.

5/ Does not include the \$0.038 rebate for CCC block Cheddar cheese sales.

**Please Note: Historic price comparison are not necessarily a good predictor of future prices.**

## Comprehensive Findings

All Revised Data in "Blue"

Using historic commodity prices, impacts of the proposals are estimated assuming that the current California and alternative formulas had been in effect from January 2001 through December 2005. The same assumptions are made for comparisons to federal pricing formulas. Table 2 shows the impact of changes to individual factors in the pricing formulas, including:

- Changes to manufacturing cost allowances (MCA)
- Changes to f.o.b. California price adjusters
- "Other" changes:
  - cheese yield and associated vat tests
  - adding support purchase prices,
  - adding snubber for the skim whey factor,
  - adding a WPC factor
- Adding a variable component, generally to the MCAs:
  - elimination of whey factor
  - ratio of the Class 1 Commodity Reference Price (CRP) to the Producer Cost Comparison (PCC)
  - natural gas factor
  - difference between market price and a fixed value

*Table 2 - Estimates of Impact of Proposals (Proposed less Current Class and Pool Prices)*  
 By factors in the formulas  
 Using historic commodity prices, estimates assume that the current and alternative formulas  
 had been in effect from January 2001 through December 2005  
 Five-Year Averages: 2001-2005  
 (Dollars per Hundredweight)

	Class 4b					
	MCA	f.o.b. Adjusters	Other	Total w/o Variable	Variable Component	Total with Variable
Institute	-\$0.51	\$0.04	-\$0.16	-\$0.63	\$0.27 1/	-\$0.36
WUD		\$0.06	\$0.04	\$0.10		\$0.10
CDC	\$0.03	\$0.29	\$0.11	\$0.43	-\$0.15 2/	\$0.27
CDI						
Alliance	-\$0.18	\$0.12	\$0.13	\$0.06		
MPC		\$0.17	\$0.42	\$0.59	-\$0.07 4/	\$0.52
LOL	-\$0.43			-\$0.43	\$0.14 5/	-\$0.29

	Class 4a					
	MCA	f.o.b. Adjusters	Other	Total w/o Variable	Variable Component	Total with Variable
Institute	-\$0.06	\$0.05		-\$0.01		-\$0.01
WUD		\$0.06	\$0.00	\$0.06		\$0.06
CDC	\$0.07	\$0.12	\$0.00	\$0.19	-\$0.11 2/	\$0.08
CDI	-\$0.13	\$0.01	\$0.00	-\$0.13		-\$0.13
Alliance	-\$0.13	\$0.01	\$0.00	-\$0.13		
MPC						
LOL						

1/ Elimination of whey factor.

2/ Base manufacturing cost allowances vary with ratio of CRP/PCC.

3/ Base manufacturing cost allowances vary with natural gas factor which was unavailable for analysis.

4/ Base cheese manufacturing cost allowance varies with cheese price.

5/ Base whey manufacturing cost allowance varies with whey price.

**Estimated Impacts of the Petition and Alternative Proposals  
on California Class and Pool Prices**

**All Revised Data in "Blue"**

- Table 3 shows the impacts of the petition and alternative proposals on class and pool prices relative to current prices from January 2001 through December 2005.
- The analysis assumes that the petition, alternative proposals and current formulas were in effect throughout the analysis period.
- The support purchase prices used reflect those in effect during the analysis time period; not the current support purchase prices projected backward.

*Table 3 - Estimates of Proposed less Current Class and Pool Prices*  
Using historic commodity prices, estimates assume that the current and alternative formulas  
had been in effect from January 2001 through December 2005  
Annual and Five-Year Averages: 2001-2005  
(Dollars per Hundredweight)

	2001	2002	2003	2004	2005	5-Year Average
<b>CLASS 4b</b>						
<b>Institute</b> <b>with whey</b>	-\$0.63	-\$0.61	-\$0.63	-\$0.66	-\$0.64	-\$0.63
<b>without whey</b>	-\$0.53	-\$0.13	-\$0.01	-\$0.35	-\$0.78	-\$0.36
<b>WUD</b>	\$0.08	\$0.15	\$0.13	\$0.06	\$0.06	\$0.10
<b>CDC</b>	<b>\$0.12</b>	<b>\$0.64</b>	<b>\$0.58</b>	<b>-\$0.04</b>	<b>\$0.06</b>	<b>\$0.27</b>
<b>CDI</b>						
<b>Alliance 1/</b>	-\$0.05	\$0.17	\$0.26	-\$0.01	-\$0.07	\$0.06
<b>MPC</b>	\$0.51	\$0.63	\$0.66	\$0.41	\$0.40	\$0.52
<b>LOL</b>	-\$0.38	-\$0.18	-\$0.12	-\$0.27	-\$0.49	-\$0.29

<b>CLASS 4a</b>						
<b>Institute</b>	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01
<b>WUD</b>	\$0.06	\$0.06	\$0.06	\$0.06	\$0.06	\$0.06
<b>CDC</b>	<b>-\$0.24</b>	<b>\$0.27</b>	<b>\$0.38</b>	<b>-\$0.01</b>	<b>\$0.01</b>	<b>\$0.08</b>
<b>CDI</b>	-\$0.13	-\$0.13	-\$0.13	-\$0.13	-\$0.13	-\$0.13
<b>Alliance 1/</b>	-\$0.13	-\$0.13	-\$0.13	-\$0.13	-\$0.13	-\$0.13
<b>MPC</b>						
<b>LOL</b>						

<b>CLASSES 2 &amp; 3</b>						
<b>Institute</b>	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01
<b>WUD</b>	\$0.06	\$0.06	\$0.06	\$0.06	\$0.06	\$0.06
<b>CDC</b>	<b>-\$0.24</b>	<b>\$0.27</b>	<b>\$0.38</b>	<b>-\$0.01</b>	<b>\$0.01</b>	<b>\$0.08</b>
<b>CDI</b>	-\$0.13	-\$0.13	-\$0.13	-\$0.13	-\$0.13	-\$0.13
<b>Alliance 1/</b>	-\$0.13	-\$0.13	-\$0.13	-\$0.13	-\$0.13	-\$0.13
<b>MPC</b>						
<b>LOL</b>						

<b>POOL PRICES: QUOTA &amp; OVERBASE</b>						
<b>Institute</b> <b>with whey</b>	-\$0.28	-\$0.27	-\$0.29	-\$0.31	-\$0.32	-\$0.29
<b>without whey</b>	-\$0.23	-\$0.06	-\$0.01	-\$0.17	-\$0.38	-\$0.17
<b>WUD</b>	\$0.06	\$0.09	\$0.09	\$0.05	\$0.05	\$0.07
<b>CDC</b>	<b>-\$0.01</b>	<b>\$0.40</b>	<b>\$0.42</b>	<b>\$0.00</b>	<b>\$0.05</b>	<b>\$0.17</b>
<b>CDI</b>	-\$0.05	-\$0.05	-\$0.05	-\$0.05	-\$0.05	-\$0.05
<b>Alliance 1/</b>	-\$0.07	\$0.03	\$0.07	-\$0.05	-\$0.08	-\$0.02
<b>MPC</b>	\$0.22	\$0.28	\$0.30	\$0.19	\$0.20	\$0.24
<b>LOL</b>	-\$0.17	-\$0.08	-\$0.05	-\$0.13	-\$0.24	-\$0.13

1/ Does not include natural gas factor.

### Frequency Occurrence of the Various Floors and Snubbers in some of the Alternative Proposals

*Table 4a* - Months in which Historic Commodity Prices were below  
Support Purchase Prices (SPP) or below proposed Manufacturing Cost Allowances (MCA)  
during the sixty-month period, January 2001 to December 2005

Proponent		Number of Months	Percent of Months
WUD, CDC, CDI, Alliance, MPC 1/	Butter Price below SPP Price	1	2%
WUD, CDC, CDI, Alliance, MPC	NFDM Price below SPP Price	3	5%
WUD, CDC, Alliance, MPC	Cheese Price below SPP Price	7	12%
CDC, MPC	SWP Price below \$0.20	33	55%
ALLIANCE	SWP Price below \$0.2106	35	58%
MPC	WPC-34% Price below \$0.26 2/	0	0%

1/ CDC, Alliance, MPC also use SPP for whey butter.

2/ Minimum value of WPC - 34% for the sixty month period is \$0.4027/lb.

*Table 4b* - Months in which Historic Commodity Prices were below  
Support Purchase Prices (SPP) or below proposed Manufacturing Cost Allowances (MCA)  
during the sixty-month period, January 1996 to December 2000

Proponent		Number of Months	Percent of Months
WUD, CDC, CDI, Alliance, MPC 1/	Butter Price below SPP Price	0	0%
WUD, CDC, CDI, Alliance, MPC	NFDM Price below SPP Price	16	27%
WUD, CDC, Alliance, MPC	Cheese Price below SPP Price	4	7%
CDC, MPC	SWP Price below \$0.20	28	47%
ALLIANCE	SWP Price below \$0.2106	35	58%
MPC	WPC-34% Price below \$0.26 2/	0	0%

1/ CDC, Alliance, MPC also use SPP for whey butter.

2/ Minimum value of WPC - 34% for the sixty month period is \$0.4350/lb.

**Estimated Impact on the Relationship between  
California Class Prices and Federal Order Prices**

*All Revised Data in "Blue"*

- Table 5 shows the estimated impact on the relationship between California class prices and federal order prices from January 2001 through December 2005.
  - Please note: plants in federal orders can avoid the minimum Class II, III and IV prices by depooling; plants in California are always subject to the minimum Class 2, 3, 4a and 4b prices.**
- The federal prices are those that would have resulted from using the pricing formulas announced in the Final Rule on November 7, 2002. The analysis assumes that these formulas have been in place since January 2001.
- Comparisons involving Class 2 use the Northern California prices less the Pacific Northwest federal order prices (Oregon) Class II prices.
- Comparisons involving Class 3 use the Southern California prices relative to the Arizona federal order prices (Arizona) Class II prices.
  - Please note: California prices are set every two months while federal prices are set every month. This may result in some differences.

Table 5 - Estimates of Impact of Proposals (Proposed less Current Class and Pool Prices)  
Using historic commodity prices, estimates assume that the current and alternative formulas  
had been in effect from January 2001 through December 2005  
Annual and Five-Year Averages: 2001-2005  
(Dollars per Hundredweight)

	2001	2002	2003	2004	2005	5-Year Average
<b>California Class 4b less Federal Class III</b>						
<b>Current</b>	-\$0.61	-\$0.59	-\$0.37	-\$0.64	-\$0.39	-\$0.52
<b>Institute with whey</b>	-\$1.24	-\$1.20	-\$1.00	-\$1.30	-\$1.04	-\$1.16
<b>without whey</b>	-\$1.14	-\$0.72	-\$0.38	-\$0.99	-\$1.17	-\$0.88
<b>WUD</b>	-\$0.53	-\$0.44	-\$0.23	-\$0.59	-\$0.33	-\$0.43
<b>CDC</b>	<b>-\$0.49</b>	<b>\$0.05</b>	<b>\$0.21</b>	<b>-\$0.68</b>	<b>-\$0.33</b>	<b>-\$0.25</b>
<b>CDI</b>	-\$0.61	-\$0.59	-\$0.37	-\$0.64	-\$0.39	-\$0.52
<b>Alliance 1/</b>	-\$0.66	-\$0.42	-\$0.10	-\$0.65	-\$0.46	-\$0.46
<b>MPC</b>	-\$0.10	\$0.04	\$0.30	-\$0.24	\$0.01	\$0.00
<b>LOL</b>	-\$0.99	-\$0.77	-\$0.48	-\$0.91	-\$0.88	-\$0.81
<b>California Class 4a less Federal Class IV</b>						
<b>Current</b>	-\$0.28	-\$0.31	-\$0.27	-\$0.47	-\$0.41	-\$0.35
<b>Institute</b>	-\$0.29	-\$0.32	-\$0.29	-\$0.48	-\$0.43	-\$0.36
<b>WUD</b>	-\$0.21	-\$0.25	-\$0.21	-\$0.40	-\$0.35	-\$0.28
<b>CDC</b>	<b>-\$0.52</b>	<b>-\$0.04</b>	<b>\$0.10</b>	<b>-\$0.48</b>	<b>-\$0.40</b>	<b>-\$0.27</b>
<b>CDI</b>	-\$0.40	-\$0.44	-\$0.40	-\$0.59	-\$0.54	-\$0.47
<b>Alliance 1/</b>	-\$0.40	-\$0.44	-\$0.40	-\$0.59	-\$0.54	-\$0.47
<b>MPC</b>	-\$0.28	-\$0.31	-\$0.27	-\$0.47	-\$0.41	-\$0.35
<b>LOL</b>	-\$0.28	-\$0.31	-\$0.27	-\$0.47	-\$0.41	-\$0.35
<b>Northern California Class 2 less Oregon Class II</b>						
<b>Current</b>	-\$0.19	-\$0.11	-\$0.36	-\$0.88	-\$0.28	-\$0.36
<b>Institute</b>	-\$0.20	-\$0.13	-\$0.37	-\$0.89	-\$0.29	-\$0.38
<b>WUD</b>	-\$0.13	-\$0.05	-\$0.29	-\$0.82	-\$0.22	-\$0.30
<b>CDC</b>	<b>-\$0.38</b>	<b>\$0.08</b>	<b>\$0.02</b>	<b>-\$0.84</b>	<b>-\$0.26</b>	<b>-\$0.28</b>
<b>CDI</b>	-\$0.32	-\$0.24	-\$0.48	-\$1.01	-\$0.41	-\$0.49
<b>Alliance 1/</b>	-\$0.32	-\$0.24	-\$0.48	-\$1.01	-\$0.41	-\$0.49
<b>MPC</b>	-\$0.19	-\$0.11	-\$0.35	-\$0.88	-\$0.28	-\$0.36
<b>LOL</b>	-\$0.19	-\$0.11	-\$0.36	-\$0.88	-\$0.28	-\$0.36
<b>Southern California Class 3 less Arizona Class II</b>						
<b>Current</b>	-\$0.22	-\$0.14	-\$0.39	-\$0.91	-\$0.31	-\$0.39
<b>Institute</b>	-\$0.23	-\$0.16	-\$0.40	-\$0.92	-\$0.32	-\$0.41
<b>WUD</b>	-\$0.15	-\$0.08	-\$0.32	-\$0.85	-\$0.25	-\$0.33
<b>CDC</b>	<b>-\$0.41</b>	<b>\$0.05</b>	<b>-\$0.01</b>	<b>-\$0.87</b>	<b>-\$0.29</b>	<b>-\$0.30</b>
<b>CDI</b>	-\$0.34	-\$0.27	-\$0.51	-\$1.04	-\$0.44	-\$0.52
<b>Alliance 1/</b>	-\$0.34	-\$0.27	-\$0.51	-\$1.04	-\$0.44	-\$0.52
<b>MPC</b>	-\$0.22	-\$0.14	-\$0.38	-\$0.91	-\$0.31	-\$0.39
<b>LOL</b>	-\$0.22	-\$0.14	-\$0.39	-\$0.91	-\$0.31	-\$0.39

1/ Does not include natural gas factor.

## Estimated Impact on Raw Product Prices in Consumer Sizes

All Revised Data in "Blue"

- Table 6 shows the impacts of the petition and alternative proposals on raw product prices in consumer container sizes.
- Ice cream contains 10% fat and 10% SNF with a density of 4.5 lbs per gallon.
- Yogurt contains 1% fat and 10% SNF.
- Consumer prices are not given for cheese and butter because the Classes 4a and 4b are backward priced, while Classes 2 and 3 are forward priced.

*Table 6 - Estimates of Proposed less Current Raw Product Costs*  
Using historic commodity prices, estimates assume that the  
current and alternative formulas had been in effect from  
January 2001 through December 2005  
Five-Year Averages: 2001-2005

	<b>Class 3</b> <b>Ice Cream</b> 10%/10% (¢/½ gallon)	<b>Class 2</b> <b>Yogurt</b> 1%/10% (¢/quart)
<b>Institute</b>	0.2¢	-0.1¢
<b>WUD</b>	0.4¢	0.0¢
<b>CDC</b>	1.1¢	-0.2¢
<b>CDI</b>	-0.5¢	-0.2¢
<b>Alliance 1/</b>	-0.5¢	-0.2¢
<b>MPC</b>		
<b>LOL</b>		

1/ Does not include natural gas factor.